



AUDITOR-GENERAL
SOUTH AFRICA

The accounting officer
Thaba Chweu Local Municipality
PO Box 61
Lydenburg
1120

30 November 2016

Reference: 02274REG15/16

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Thaba Chweu Local Municipality for the year ended 30 June 2016

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

THE UNIVERSITY OF CHICAGO
DIVISION OF THE PHYSICAL SCIENCES

REPORT OF THE COMMITTEE ON THE PHYSICS OF THE ATOM
AND THE PHYSICS OF THE MOLECULE

The Committee on the Physics of the Atom and the Physics of the Molecule was organized in 1946 to study the progress of research in these fields and to make recommendations to the University of Chicago regarding the support of such research. The Committee has since that time held regular meetings and has published several reports. The present report is the first of a series of reports on the progress of research in the physics of the atom and the physics of the molecule.

The Committee has been fortunate in having had the cooperation of many of the leading physicists in the United States. The Committee has held several meetings at the University of Chicago and has also held meetings at other universities. The Committee has also held several meetings at the University of Chicago and has also held meetings at other universities.

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Kindly acknowledge receipt of this letter.

Yours sincerely



.....
Bomkazi Bhobho

Deputy Business Executive: Mpumalanga

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Auditor's report

Thaba Chweu Local Municipality

30 June 2016

Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Thaba Chweu Local Municipality

Report on the financial statements

Introduction

1. I was engaged to audit the financial statements of the Thaba Chweu Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Accumulated surplus

4. I was unable to obtain sufficient appropriate audit evidence to support prior period errors disclosed in note 38 to the financial statements. I was unable to determine these adjustments by alternative means, due to weaknesses in the controls of the municipality. Consequently, I was unable to determine whether adjustments were necessary to the accumulated surplus stated at R2 018 364 376 (2014-15: R2 099 047 561) in the statement of changes in net assets.

Property, plant and equipment

5. The municipality did not have adequate systems to record assets and maintain accurate records of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Assets recorded in the asset register to the value of R198 471 937 (2014-15: R58 307 241) could not be physically verified. Furthermore, land selected from the source could not be traced to the asset register, due to the inadequacy of the municipality's fixed asset register.
6. The municipality incorrectly calculated the deemed cost of some of its infrastructure and community assets included in the fixed asset register. There was a resultant impact on the depreciation expense and accumulated surplus. I was not able to determine the impact on the net carrying amount of property, plant and equipment, as it was impracticable to do so. Additionally, I was unable to obtain sufficient appropriate audit evidence to support the deemed cost used to calculate the value of some of the infrastructure and community assets. I was unable to confirm the cost by alternative means.
7. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Additions to property, plant and equipment were incorrectly recognised as expenditure. Consequently, property, plant and equipment was understated and total expenditure was overstated by R16366806. There was a resultant impact on the surplus for the period and on the accumulated surplus.
8. Consequently, I was unable to determine whether any adjustment was necessary to property, plant and equipment of R2 119 176 858 (2014-15: R2 124 046 091) as disclosed in note 4 to the financial statements.

Investment properties

9. The municipality did not fair value investment property at the reporting date in accordance with GRAP 16, *Investment property*. I was not able to quantify the extent of the misstatement, as it was impracticable to do so. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus. Furthermore, I was unable to obtain sufficient appropriate audit evidence regarding the transfers out of R31 503 398 as disclosed in note 3 to the financial statements. I was not able to determine the impact on accumulated surplus as it was impracticable to do so. Consequently, investment property of R305 153 226 (2014-15: R336 656 624) as disclosed in note 3 to the financial statements is misstated.

Inventories

10. The municipality did not classify properties held for sale and earmarked for future development to inventory in accordance with GRAP 12, *Inventory*. I was not able to determine the value and extent of these properties, as the municipality did not maintain adequate records. Furthermore, I was unable to obtain sufficient appropriate audit evidence regarding inventories as disclosed in note 8 to the financial statements. I could not confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to inventories of R41 464 206 as disclosed in note 8 to the financial statements.

Receivable exchange and non-exchange transactions

11. In terms of GRAP 104, *Financial instruments*, an entity is required to assess individually significant financial assets for impairment where there are indicators of impairment and to collectively assess significant financial assets with groups of assets with similar credit risk characteristics. Contrary to this requirement, the municipality incorrectly assessed the payment history rate to calculate the impairment. Consequently, the receivable from exchange and non-exchange transactions was overstated by R20 619 924 (2014-15: R30 837 441) and expenditure was understated by the same amount. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.

Value-added tax (VAT)

12. I was unable to obtain sufficient appropriate audit evidence regarding prior period error amounts relating to VAT as disclosed in note 38 to the financial statements. I could not confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to VAT of R8 937 869 (2014-15: R8 707 690) as disclosed in note 10 to the statement of financial position.

Contingent liabilities

13. GRAP 19, *Provisions, contingent liabilities and contingent assets* requires an entity to disclose contingent liabilities of which the amount of the obligation cannot be measured with sufficient reliability. Contrary to this requirement, the municipality did not disclose contingent liabilities for litigations it could not measure reliably. Furthermore, the municipality did not include contingent liabilities amounting to R6 848 345 as part of its disclosure. Consequently, I was unable to determine the amount by which contingent liabilities was understated and whether further adjustments were required to contingent liabilities stated at R8 449 034.

Irregular expenditure

14. The municipality did not include the required information on irregular expenditure in the notes to the financial statements, in accordance with section 125(2)(d) of the MFMA. The municipality made payments in contravention of the supply chain management (SCM) requirements, resulting in additional irregular expenditure of R8 662 310. Consequently, I was unable to determine whether any further adjustments were necessary relating to irregular expenditure disclosed at R199 935 438 (2014-15: R171 178 575) in the financial statements.

Prior period errors

15. The municipality did not disclose prior period errors in note 38 to the financial statements, as required by GRAP 3, *Accounting policies, estimates and errors*. The nature, the amount of the correction for each financial statement item affected and the amount of the correction at the beginning of the earliest prior period were not disclosed. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary relating to the prior period errors disclosed in the financial statements.

Cash flow statement

16. I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement as a whole, as the financial statements were presented for audit purposes without accurate and complete underlying accounting records. I was unable to audit the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary relating to the cash flow statement as a whole.

Preparation of the financial statements

17. I was unable to obtain sufficient appropriate audit evidence that the accounting officer had fulfilled his responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, as written representations in this respect were not provided. I was also unable to obtain written representations from the accounting officer that I had been provided with all relevant information and access as agreed in terms of the audit engagement and that all transactions had been recorded and were reflected in the financial statements. I could not determine the effect of the lack of such representations on the financial position of the municipality at 30 June 2016 or on the financial performance and cash flows for the year then ended.

Aggregation of immaterial uncorrected misstatements

18. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items included in the statement of financial performance:
- Employee related costs reflected as R140 258 324 was overstated by R15 827 510.
 - Loss on disposal of assets reflected as R21 611 784 was overstated by R19 792 525.
 - Contracted services reflected as R46 353 030 was overstated by R9 424 870.
 - General expenses reflected as R59 048 473 was overstated by R4 182 966.

Disclaimer of opinion

19. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

20. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

21. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during the year ended 30 June 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Material losses

22. As disclosed in note 32 to the financial statements, material losses of 43 237 485 units (2014-15: 36 169 991 units) were incurred as a result of electricity distribution losses, which represented 31% (2014-15: 27%) of the total electricity purchased. Material losses of 3 271 303 units (2014-15: 0 units) were also incurred as a result of water distribution losses, which represented 34% (2014-15: 0%) of the total water purchased.

Material impairments

23. As disclosed in note 11 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors amounted to R108 251 442 (2014-15: R62 184 990), which represented 87% (2014-15: 59%) of the total consumer debtors. The contribution to the provision for debt impairment was R46 066 452 (2014-15: -R7 031 346).

Additional matters

24. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

25. The supplementary information set out on pages ... to ... does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

26. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

27. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. I performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

28. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Objective 1: basic service delivery and infrastructure development on pages ... to ...
 - Objective 2: local economic development on pages ... to ...
29. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPI).
30. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
31. The material findings in respect of the selected objectives are as follows:

Basic service delivery and infrastructure development

Usefulness of reported performance information

32. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. Important reported indicators were not consistent with those in the IDP.
33. The FMPPI requires performance targets to be specific in clearly identifying the nature and required level of performance. Important targets were not specific.
34. The FMPPI requires performance indicators to be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. Important indicators were not well defined.
35. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. Important indicators were not verifiable.

Reliability of reported performance information

36. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the source information provided.

Local economic development

Usefulness of reported performance information

37. Section 41(c) of the MSA requires the IDP to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. Important reported indicators were not consistent with those in the approved IDP.
38. The FMPPI requires performance targets to be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. Important indicators were not well defined.
39. Important indicators did not relate logically and directly to an aspect of the municipality's mandate and the realisation of strategic goals and objectives as per the five-year IDP, as required by the FMPPI.

Reliability of reported performance information

40. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. For important indicators, the reported achievements against planned targets were not reliable, because I was unable to obtain sufficient appropriate audit evidence for these targets. In addition, the reported achievements against planned targets for important indicators were not reliable when compared to the source information provided.

Additional matter

41. I draw attention to the following matter:

Achievement of planned targets

42. Refer to the annual performance report on pages... to ... for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 32 to 40 of this report.

Compliance with legislation

43. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

44. The amendment to the IDP was not adopted by the council only after all the members of the council had been given reasonable notice.
45. The service delivery and budget implementation plan (SDBIP), used for implementing the municipality's delivery of municipal services and annual budget, did not indicate projections for each month of the revenue to be collected (by source), the operational and capital expenditure (by vote), and service delivery targets and performance indicators for each quarter, as required by sections 1 and 53(1)(c) of the MFMA.
46. The performance of the ThabaChweu Local Development Agency against the agreed performance objectives and indicators was not monitored and annually reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.
47. The key performance indicators set by the municipality did not include indicators on the percentage of households with access to a basic level of water, sanitation, electricity and solid waste removal, as required by section 43(2) of the MSA and municipal planning and performance management regulation 10(a).

Annual financial statements, performance report and annual report

48. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not subsequently be provided, which resulted in the financial statements receiving a disclaimer of opinion.
49. The 2014-15 annual report was not published for the local community to submit representations in connection with the annual report, as required by section 127(5)(a) of the MFMA.
50. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.
51. The annual performance report for the year under review did not include a comparison of the performance with set targets, a comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1)(b) and (c) of the MSA.

Procurement and contract management

52. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, contrary to SCM regulation 17(a) and (c).
53. Quotations were accepted from prospective providers who were not registered on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
54. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, contrary to SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

55. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) and did not qualify for the contract in accordance with section 18(1) of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000) and CIDB regulations 17 and 25(7A).
56. Thresholds for local content on designated sectors' procurement were not properly applied in accordance with the requirements of preferential procurement regulation 9.
57. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
58. Awards were made to providers who were in the service of other state institutions or whose directors/ principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the prior year and no effective steps had been taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Human resource management and compensation

59. Appointments were made in posts that were not provided for on the approved staff establishment of the municipality, in contravention of section 66(3) of the MSA.
60. Appointments were made in posts of managers directly accountable to the municipal manager that had not been advertised, in contravention of section 56(3) of the MSA.
61. A senior manager directly accountable to the municipal manager was appointed without the approval of the municipal council, in contravention of section 56(1)(a) of the MSA.
62. Job descriptions were not established for all posts in which appointments had been made in the current year, in contravention of section 66(1)(b) of the MSA.
63. Sufficient appropriate audit evidence could not be obtained that newly appointed managers directly accountable to the municipal manager submitted original/certified copies of academic and professional qualifications, proof of previous employment and disclosure of financial interests prior to appointment, as per the requirements of regulation 4 of GNR 805.
64. Sufficient appropriate audit evidence could not be obtained as to how the council or municipal manager concluded that there was no misconduct before an official was appointed, in contravention of section 57A of the MSA.
65. The competencies of the chief financial officer were not timeously assessed to identify and address gaps in competency levels, as required by municipal regulation on minimum competency levels 13.
66. The senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.

Expenditure management

67. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
68. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.
69. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

70. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

71. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
72. An adequate management, accounting and information system was not in place to account for the receipt of revenue, as required by section 64(2)(e) of the MFMA.

Asset management

73. An adequate management, accounting and information system was not in place to account for assets, as required by section 63(2)(a) of the MFMA.
74. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
75. The municipality did not establish an investment policy that was adopted by the council, as required by section 13(2) of the MFMA and municipal investment regulation 3(1)(a).
76. Capital assets were sold without the approval of the council and the accounting officer, contrary to section 14(2)(a) of the MFMA.

Consequence management

77. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
78. Irregular expenditure incurred by the municipality was not adequately investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulation 75(1).
79. Fruitless and wasteful expenditure incurred by the municipality was not adequately investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulation 75(1).
80. Allegations of financial misconduct against senior managers were not always tabled before the council, as required by disciplinary regulation for senior managers 5(2).
81. Allegations of financial misconduct were not always investigated as required by disciplinary regulation for senior managers 5(3) and section 171(4) of the MFMA.

Internal control

82. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

- 83. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.
- 84. The accounting officer did not implement effective human resource management to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.

Financial and performance management

- 85. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
- 86. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.

Governance

- 87. Although the internal audit unit and the audit committee operated effectively during the current period as per their legislated mandate, recommendations made to management on the improvement of internal controls to ensure reliable reporting on both financial and performance information as well as compliance with legislation had not resulted in improved controls.

Other reports

- 88. I draw attention to the following engagements that could potentially have an impact on the municipality's financial, performance and compliance-related matters. My opinion is not modified in respect of these engagements that are in progress.

Investigations

- 89. The Public Protector South Africa is currently conducting investigations based on allegations of fraud and corruption by municipal officials, maladministration and improper prejudice at the municipality.

Auditor-General

Mbombela

30 November 2016



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

FINAL MANAGEMENT REPORT

THABA CHWEU LOCAL MUNICIPALITY

30 JUNE 2016

Communicated to management on: 23 November 2016





AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

MANAGEMENT REPORT

THABA CHWEU LOCAL MUNICIPALITY

30 June 2016

Discussed with management on: 23 November 2016

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AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

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MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE THABA CHWEU LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2016

INTRODUCTION

1. Our responsibility is to:

- express an opinion on the separate financial statements
- express a conclusion in the management report on the usefulness and reliability of the reported performance information for selected objectives, and report the material findings in the auditor's report
- report on material findings relating to compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

Our engagement letter sets out our responsibilities and those of the accounting officer in detail.

2. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with legislation for the year ended 30 June 2016. These findings were communicated to management and the report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. This management report consists of an executive summary and annexures containing the detailed audit findings.
4. The purpose of the management report is to communicate audit findings to the accounting officer and does not constitute public information. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remains in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.

EXECUTIVE SUMMARY

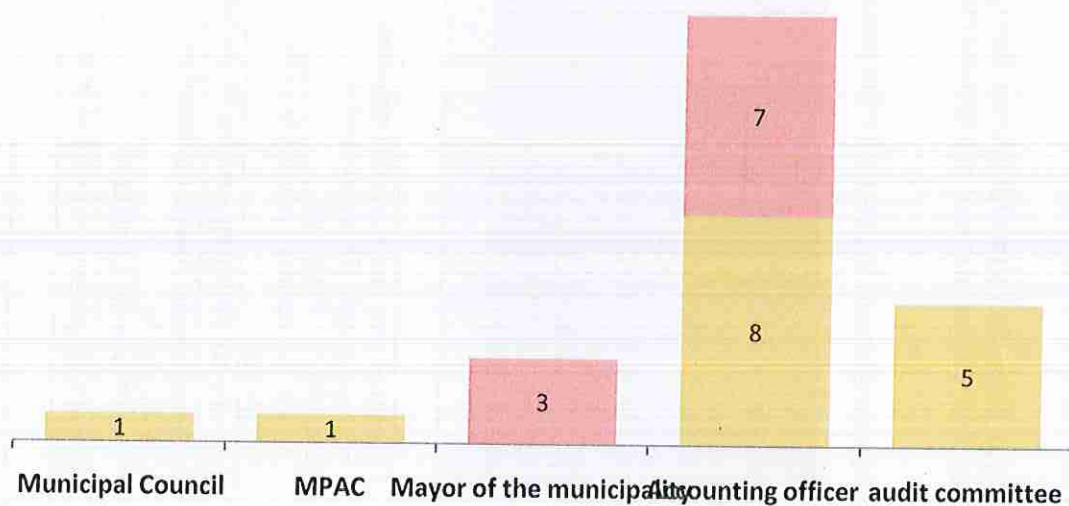
SECTION 1: Interactions with stakeholders responsible for oversight and governance

5. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome of the municipality:

Stakeholder	Number of interactions
Municipal council	1
Municipal public accounts committee	1
Mayor of the municipality	3
Acting Municipal manager	15
Audit committee	5

Figure 1: Effectiveness of planned interactions

Effectiveness of planned interactions



6. At these interactions, we discussed the dashboard reports, engagement letter, audit strategy, communication of audit findings, and draft management report. Some stakeholders made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in section 2.6, which deals with the assessment of assurance providers.

SECTION 2: Matters relating to the auditor's report

2.1 MISSTATEMENTS IN THE FINANCIAL STATEMENTS

7. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with section 122 of the Municipal Finance Management Act (MFMA).
8. The misstatements that were not corrected form the basis for the disclaimer of opinion on the financial statements.

Material misstatement					Impact
					R
Financial statement item	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)	Impact R Current year	Prior year	
Material misstatements not corrected					
Property plant and equipment		Yes	1 139 279 904	1 330 248 412	
Infrastructure and community assets	Deemed cost in the asset register are not reasonable (Disagreement + Limitation) : Projected		1 003 585 119.00		
Infrastructure assets	Assets we couldnot physically verify: Projected		128 089 378.00		
Other assets	Assets not physically verified: Projected		11 262 024.00		
Land and buildings	Completeness: Assets not found on asset register		Unknown		
Land and buildings	Landfill site not capitalised		- 4 009 701.00		
Other assets (disposal)	Assets disposed not removed from		353 085.00		

Material misstatement					Impact
Financial statement item	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.) FAR	Occurred in prior year (Insert Yes/No)	Impact R Current year	Impact R Prior year	
Work in progress (WIP)					
Closing balance		No	56 023 261		
Transfers	Transferred assets could not be physically verified: Limitation		-12 254 761,68		
Additions	Assets could not be verified		-46 865 774,18		
	Not all assets included in WIP		3 097 274,64		
Investment property					
		No			
Investment property (Rights)	Property recorded is not owned by the municipality – limitation subsequent to management's adjustment of the AFS which was not supported by sufficient appropriate evidence		-31 503 398		
Investment property (Closing balance)	Investment properties not fair valued at year end		-305 153 226		
Inventory					
Properties held for transfer	Incorrect valuation of inventories – limitation subsequent to management's adjustment of the AFS which was not	No			
			- 39 650 222		



Material misstatement				Impact	
Financial statement item	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)	Impact R Current year	R Prior year	
Properties held for transfer(opening balance	supported by sufficient appropriate evidence				
	Completeness - assets owned by municipality not recorded as inventory		Unknown		
Vat receivables	Adjustments passed in prior year not substantiated	Yes	8 937 869	8 707 690	
Receivables		Yes	-21 909 071.00	30 837 441	
Receivables - Traffic fines	Traffic fines understated; months not data not included		Unknown		
Receivables - Property Rates	Municipality charges itself property rates resulting in overstatement		-2 422 831.40		
Receivables – Other	Overpayment of employees		1 133 684.86		
Debt Impairment	Underprovision of debtors resulting in overstatement of debtors balance		-20 619 924.00		
Current liabilities					
Provisions	Limitation on reperforming due to limitation of assumptions	Yes	4 009 701.00	17 591 772	



Material misstatement					Impact
Financial statement item	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)	Impact R Current year	Impact R Prior year	
Expenses		Yes			2 118 036
Repairs and maintenance	Capital assets incorrectly classified as repairs (incl. in PPE)		-13 269 531		
Debt impairment	Under provision of debt impairment		- 20 619 924		
Depreciation and amortisation					
Impairment loss	The method used for impairment assessment was not consistently applied	No	-691 960.00		
		No	-393 751.00		
Disclosures					
Accumulated surplus (and revaluation reserve) + Prior period errors		Yes	2 018 364 376		2 099 047 561
Irregular expenditure					
Deviations and SCM test related	Deviations and SCM test related	Yes	179 840 885.00		18 040 907
Completeness (investigations not conducted)	Investigations into prior years irregular expenditure not conducted		8 662 310.00		
			Unknown		Unknown
Contingencies		Yes			
			6 848 345.00		24 815 156

Material misstatement					Impact
					R
Financial statement item	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)	Impact R Current year	Prior year	
Contingencies	Cases not disclosed		6 848 345.00		
Cases not disclosed amounts undetermined	Cases not disclosed amounts undetermined		Unknown		
Cash Flow Statement		Yes	76 041 360	54 207 878	
IN AGGREGATE					
1. Employee costs		No	-15 827 510		
Basic salaries			-4 365 395.38		
Allowances all	Allowances paid without prior authorisation		-7 887 768.92		
Medical, pension and 3rd party payments	Contributions not accounted for in employee costs		110 085.01		
Terminations	Overpayment of employee after termination		-46 312.04		
Overtime	Overtime worked without supervisor approvals		-566 419.39		

Material misstatement					Impact
Financial statement item	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)	Occurred in prior year (Insert Yes/No)	Impact R Current year		R Prior year
Employee cost	Overstatement of employee cost by including salaries paid by municipality on behalf of Dept. of Roads and Transport		-1 200 623.34		
2. Expenditure		Yes			
Loss on disposal of assets	Incorrect calculation of loss/profit on sale of assets		15 240 054.00		73 345 626
Contracted services	Agency revenue related - overstatement of expenditure		-19 792 525.88		
General expenses	Incorrect classification		-9 424 870		
			-4 182 966		
Material misstatements corrected					
Irregular expenditure	Condoned without proper investigations being made		171 178 575		
Unauthorised expenditure	Condoned without proper investigations being made		43 403 811		

2.2 MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

Emphasis of matter paragraphs

9. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

Restatement of corresponding figures

10. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 30 June 2016 in the financial statements of the Thaba Chweu Local Municipality at, and for the year ended, 30 June 2015.

Material losses

11. As disclosed in note 32 to the financial statements, material losses of 43 237 485 units (2014-15: 36 169 991 units) were incurred as a result of electricity distribution losses, which represent 31% (2014-15: 27%) of the total electricity purchased. Material losses of 3 271 303 units were incurred as a result of water distribution losses, which represent 34% of the total water.

Material impairments

12. As disclosed in note 11 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors amounted to R108 251 442 (2014-15: R62 184 990), which represented 87% (2014-15: 60%) of the total consumer debtors. The contribution to the provision for debt impairment was R28 084 635 (2014-15: -R7 031 346).

Additional matter paragraphs

13. The following additional matter paragraphs will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

Unaudited supplementary schedules

14. The supplementary information set out on pages 67 to 72 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.



2.3 REPORT ON PREDETERMINED OBJECTIVES

Introduction

16. As required by sections 4 and 20 of the PAA, read with the general notice issued in terms thereof, we have audited the reported performance information of the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2016:
 - a. KPA 1: Basic service delivery and infrastructure development on pages ... to ...
 - b. KPA 2: Local Economic Development on pages ... to ...
17. We conducted our audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical financial information*.
18. We evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
19. We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. We believe that the evidence obtained from the work performed provides an appropriate basis for the reasonable assurance conclusions on the usefulness and reliability of the reported performance information expressed below.

Summary of audit conclusions

21. The following is a summary of our conclusions on the usefulness and reliability of the reported performance information:

Selected strategic objective	Usefulness	Reliability
KPA1: Provide access to basic services	Adverse	Adverse
KPA2: Local Economic Development & enhance and support tourism initiatives and development	Adverse	Qualified

KPA 1: Basic services delivery and infrastructure development

Basis for adverse conclusion on usefulness and reliability

Basis 1 – Consistency of objectives indicators

22. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. Important reported indicators were not consistent with those in the approved integrated development plan. This was due to

management not adhering to the requirements of the FMPPI relating to implementing proper systems and processes.

Basis 2 – Measurability of indicators

23. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance. Important targets were not specific.

And

24. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. Important indicators were not well defined.

And

25. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. Important indicators were not verifiable.

Basis 3 – Reliability of reported performance information

The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the evidence provided.

Adverse conclusion on usefulness and reliability

26. In our opinion, because of the significance of the matters described in the basis for adverse conclusion paragraphs, the reported performance information of service delivery and infrastructure development presented in the annual performance report is not useful and reliable in accordance with the identified performance management and reporting framework.

Objective: Local economic development

Basis for adverse conclusions on usefulness

Basis 1 – Consistency of objectives indicators

27. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. Important reported indicators were not consistent with those in the approved integrated development plan. This was due to management not adhering to the requirements of the FMPPI relating to implementing proper systems and processes.

Basis 2 – Measurability of indicators

28. The FMPPI requires performance targets to be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. Important indicators were not well defined.

Basis 3 – Relevance of indicators

29. Important indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the five year integrated development, as required by the FMPPI.

Basis for qualified conclusions on reliability

Basis1- Reliability of reported performance information

30. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. For important indicators, the reported achievements against planned targets were not reliable because I was unable to obtain sufficient appropriate audit evidence for these targets. In addition, the reported achievements against planned targets for important indicators were not reliable when compared to the source information provided.

Qualified conclusion on reliability

31. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. Important indicators, the reported achievements against planned targets were not reliable because we were unable to obtain sufficient appropriate audit evidence for these targets. In addition, the reported achievements against planned targets for important indicators were not reliable when compared to the evidence provided.

Adverse conclusion on usefulness

32. In our opinion, because of the significance of the matters described in the basis for adverse conclusion paragraphs, the reported performance information of Local economic development presented in the annual performance report is not useful in accordance with the identified performance management and reporting framework.

Qualified conclusion on reliability

33. In our opinion, except for the effects and possible effects of the matter described in the basis for qualified conclusion paragraph, the reported performance information of Local economic development is reliable, in all material respects, in accordance with the identified performance management and reporting framework.

Additional matter

34. We draw attention to the following matter: Our conclusion is not modified in respect of this matter:

Achievement of planned targets

35. Refer to the annual performance report on pages... to ... for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs x to xx of this report.



2.4 FINDINGS ON COMPLIANCE WITH LEGISLATION

36. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

Strategic planning and performance management

37. The amendment to the integrated development plan (IDP) was not adopted by the council only after all the members of council have been given reasonable notice.
38. The service delivery and budget implementation plan (SDBIP) for implementing the municipality's delivery of municipal services and annual budget did not indicate projections for each month of the revenue to be collected, by source and or the operational and capital expenditure, by vote, and service delivery targets and performance indicators for each quarter as required by section 1 and 53(1)(c) of the MFMA.
39. The performance of Thaba Chweu Local Economic Development Agency against the agreed performance objectives and indicators was not monitored and annually reviewed, as part of the annual budget process, as required by section 93B(b) of the MSA.
40. The KPIs set by the municipality did not include indicators on percentage of households with access to basic level of water, sanitation, electricity and solid waste removal were not set by the municipality as required by section 43(2) of the MSA and the Municipal planning and performance management regulation 10(a).

Annual financial statements and annual reports

41. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
42. The 2014/15 annual report was not published for the local community to submit representations in connection with the annual report, as required by section 127(5)(a) of the MFMA.
43. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.
44. The annual performance report for the year under review did not include a comparison of the performance with set targets, comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1)(a), (b) and (c) of the MSA.

Procurement and contract management

45. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
46. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
47. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).



48. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) and did not qualify for the contract, in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
49. Thresholds for local content on designated sectors procurement were not properly applied in accordance with the requirements of preferential procurement regulation 9.
50. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
51. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Human resource management and compensation

52. Appointments were made in posts which were not provided for in the approved staff establishment of the municipality, in contravention of section 66(3) of Municipal Systems Act.
53. Appointments were made in posts of manager directly accountable to municipal manager that were not advertised, in contravention of section 56(3) of Municipal Systems Act.
54. A senior manager directly accountable to the municipal manager were appointed without the approval of the municipal council, in contravention of section 56(1)(a) of Municipal Systems Act.
55. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of Municipal Systems Act.
56. Sufficient appropriate audit evidence could not be obtained that newly appointed managers directly accountable to municipal managers submitted original/certified copies of academic and professional qualifications, proof of previous employment and disclosure of financial interests prior to appointment as per the requirements of regulation 4 of GNR 805.
57. Senior managers who were previously dismissed for financial misconduct were re-appointed before the expiry of 10 years in contravention of section 57A of the Municipal Finance Management Act.
58. The competencies of the chief financial officer were not assessed in a timely manner in order to identify and address gaps in competency levels as required by Municipal Regulations on Minimum Competency Levels 13.
59. The senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the Municipal Systems Act.

Expenditure management

60. Money owed by the municipality was not always paid within 30 days, as required by section 65(2) (e) of the Municipal Finance Management Act.
61. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.
62. Reasonable steps were not taken to prevent, irregular expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.



63. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.

Revenue management

64. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the Municipal Finance Management Act.
65. An adequate management, accounting and information system which accounts for receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.

Asset management

66. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
67. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
68. The municipality did not establish an investment policy that was adopted by council, as required by section 13(2) of the MFMA and municipal investment regulation 3(1)(a).
69. Capital assets were sold, transferred, permanently disposed without the approval of the council and the accounting officer, as required by section 14(2)(a).




Consequence management

70. Unauthorised incurred by the municipality was not adequately investigated to determine if any person is liable for the expenditure, as required by section 32(2)(f) of the Municipal Finance Management Act.
71. Irregular expenditure incurred by the municipality was not adequately investigated to determine if any person is liable for the expenditure, as required by section 32(2) (b) of the Municipal Finance Management Act.
72. Fruitless and wasteful expenditure incurred by the municipality was not adequately investigated to determine if any person is liable for the expenditure, as required by section 32(2) (b) of the Municipal Finance Management Act.
73. Allegations of financial misconduct against senior managers were not always tabled before council, as required by Disciplinary regulations for senior managers 5(2).
74. Allegations were not always investigated, as required by Disciplinary regulations for senior managers 5(3) and section 171(4) of Municipal Finance Management Act.




2.5 INTERNAL CONTROL




























75. Below is our assessment of implementing the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the annual performance report to be materially misstated, and material instances of non-compliance with legislation to occur.

























































76. The internal controls were assessed as follows:







	The required preventative or detective controls were in place.
	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
	Internal controls were either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

77. The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions under the three fundamentals of internal control. The movement is assessed as follows:

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment						
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity						
• Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls						
• Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored						
• Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
• Develop and monitor the implementation of action plans to address internal control deficiencies						
• Establish an information technology governance framework that supports and enables the business, delivers value and improves performance						
Financial and performance management						
Overall movement from previous assessment						
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting						
• Implement controls over daily and monthly processing and reconciling transactions						
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information						
• Review and monitor compliance with applicable legislation						
• Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information			N/A	N/A	N/A	N/A
Governance						
Overall movement from previous assessment						
• Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored						
• Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<ul style="list-style-type: none"> Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation 						

Leadership

Effective leadership culture

78. Management established a formal code of conduct that addressed appropriate ethical and moral behaviour, but the code was not communicated to all staff/staff were not trained to properly understand and implement the code.
79. Management did not put in place adequate measures to set an ethical tone at the municipality e.g. a councillor conducting business with the municipality was identified.

Oversight responsibility

80. As the accounting officer did not adequately review the financial statements and the annual performance report before submitting them for auditing, the following matters were not identified and corrected:
- Non-compliance with key laws, regulations and standards.
 - Material misstatements contained in the annual financial statements submitted for audit.
 - Annual performance report not being useful and reliable.
 - Incorrect and incomplete disclosure of key issues in the annual financial statements for example fruitless and wasteful expenditure, related parties.

Human resource management

81. An assessment of human resource management has identified the following deficiencies

Human resource planning and organisation

- A human resource plan based on the strategic plan of the municipality was not in place.
- The organisational structure was not aligned to the strategic plan of the municipality
- Job descriptions did not exist for each post or group of posts.

Management of vacancies

- The overall vacancy rate at year end increased from 2.2% in the previous year to 33% in the current year.
- Positions in senior management were vacant for more than 12 months.

- The municipal manager and head of supply chain positions had been vacant for more than 12 months.
- Vacant positions in senior management were not advertised within six months.

Appointment processes

- Appointments were made in posts that had not been approved and/or funded or were not on staff establishment.
- The prescribed selection and approval processes were not followed for all appointments.

Competencies of key officials

- Minimum competencies have not been achieved for some positions.

Performance management

- No performance management system in place for employees other than senior managers.
- The performance contract of the senior managers was not signed within 30 days after year end.

Policies and procedures

82. Management did not have documented policies and procedures to guide the operations of the municipality resulting in numerous instances of non-compliance with the MFMA as detailed under the *Findings on compliance with legislation* section of this report. In addition, management did not take action to correct the internal control deficiencies identified during our audit.
83. The municipality did not have documented and approved internal policies and procedures to address planning, implementation, monitoring and reporting processes and events pertaining to performance management and reporting.
84. The municipality did not have documented and approved internal policies and procedures to address the process of collecting, recording, processing, monitoring and reporting performance information.
85. The internal policies and procedures of the municipality did not adequately address the processes pertaining to the planning, monitoring, managing and reporting of performance information at an overall performance management level or objective level.
86. The municipality did not develop and implement proper performance planning and management practices to provide for the development of performance indicators and targets.

Action plans to address internal control deficiencies

87. The municipality developed a plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner.

Information technology governance framework

88. Lack of regular ICT steering committee meetings could lead to a lack of adequate communication regarding ICT matters and inadequate senior and executive management involvement in ICT, leading to misalignment between ICT and organisational strategies. This could ultimately have a negative impact on the ability of the municipality to render services.

- 89. Overspending in the budget could lead to the municipality realising unauthorised expenditure.
- 90. The roles and responsibilities of an IT governance champion not being delegated to a specific individual could result in a lack of coordination, management oversight and direction for information security and IT Governance.

Financial and performance management

Proper record keeping

- 91. The municipality did not have a proper record management system to maintain information that supported the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information.

Regular, accurate and complete financial and performance reports

- 92. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.

Compliance monitoring

- 93. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

Information technology systems

Security management

- 94. Absence of updated antivirus software could result in systems that are vulnerable to system malware and malfunctions which could lead to loss of information.

User access control

- 95. Processes were not in place to ensure that reviews would periodically be undertaken to determine whether employee's current access and privileges on the network systems were commensurate with their job responsibilities. Lack of timeous review of the functions allocated to application users could result in users having functions that do not commensurate with their job descriptions.
- 96. The lack of reviews of system administrator's activities could lead to unauthorised access being gained to the information systems as inappropriate access granted might not be detected timely.

Governance

Risk management activities and risk strategy

- 97. The municipality did not always mitigate the risks identified as per the risk register resulting in repeat findings.
- 98. The municipality did not have a fraud prevention plan.

Internal audit

99. The internal audit unit operated effectively during the current period as per their legislated mandate. Recommendations were made to management on the improvements on the internal controls to ensure reliable reporting on both financial and performance information as well as compliance with legislation. This has not however resulted into improvement on the controls due to management lack of implementation of recommendation which led to the adverse assessment on the impact this unit had.
100. The internal audit unit did not always follow up the implementation of internal and external audit recommendations to address audit findings.

Audit committee

101. The audit committee operated effectively during the current period as per their legislated mandate. Recommendations were made to management on the improvements on the internal controls to ensure reliable reporting on both financial and performance information as well as compliance with legislation. This has not however resulted into improvement on the controls due to management lack of implementation of recommendation which led to the adverse assessment on the impact this committee had.

Summary

102. The matters above, as they relate to the basis for the disclaimer of opinion, findings on the annual performance report and findings on compliance with legislation, will be summarized in the auditor's report as follows:

Leadership

103. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.
104. The accounting officer did not implement effective human resource management to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.

Financial and performance management

105. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
106. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.

Governance

107. Although the internal audit unit and audit committee operated effectively during the current period as per their legislated mandate, recommendations made to management on the improvements on the internal controls to ensure reliable reporting on both financial and performance information as well as compliance with legislation has not resulted into improvement on the controls.



2.6 ASSURANCE PROVIDERS AND STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

108. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance. One of the important oversight functions of the legislature and council is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report, as well as on the auditee's compliance with legislation.
109. Our reporting and the oversight processes reflect on past events, as it takes place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.
110. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.5) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

Assurance provider	Assessment	Reason for the assessment of the assurance provider
Senior management	<i>Provides limited/ no assurance</i>	<p>Senior management were appointed to act in key positions</p> <p>Material misstatements and significant internal control deficiencies were identified for most departments of the municipality</p> <p>Monthly and daily controls not adhered to</p>
Municipal manager	<i>Provides limited/ no assurance</i>	<p>The municipal manager did not ensure effective monitoring of the action plan to address the findings</p> <p>The vacancy in key positions (e.g. head SCM) impacted negatively on the audit outcomes</p> <p>Performance of all staff members was not measured Irregular, fruitless and wasteful expenditure increased from prior year. Repeat findings noted. No investigation was done on these to ensure that the person liable is held accountable</p>
Mayor of municipality	<i>Provides limited/ no assurance</i>	<p>Failed to timeously appoint municipal manager</p> <p>The municipality still gets repeat findings. The mayor's intervention has therefore not made much of an impact during the year under review as far as the financial statements, performance and compliance are concerned</p> <p>No proper monitoring of employee performance,</p>

Assurance provider	Assessment	Reason for the assessment of the assurance provider
		including senior managers. For example, a finding was raised regarding the fact that management who signed performance management contract were not reviewed on a quarterly basis as per the performance management agreement/contract
Internal audit	<i>Provides some assurance</i>	<p>1. Legislation in South Africa requires the establishment, roles and responsibilities of internal audit units. Internal audit units form part of the internal control and governance structures of the municipality as they have an important role in the monitoring activities of the municipality. Internal audit provides an independent assessment of governance, risk management and internal control processes of the municipality.</p> <p>2. The internal audit unit of a municipality must prepare a risk based audit plan and internal audit program for each financial year, and advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control and compliance with the MFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer.</p> <p>The internal audit did not always make regular follow ups on audit and review findings and recommendations for performance and financial information, as well as the actions decided upon to ensure that those actions are implemented by management. e.g. there was no follow-up done by internal audit unit on second and third quarter reports for performance information</p> <p>The recommendations of the internal audit were not implemented by management resulting in repeat findings</p> <p>Although the unit has done its mandated work, we have considered that it has had limited impact on the outcome of the audit opinion expressed.</p>
Audit committee	<i>Provides some assurance</i>	<p>1. The audit committee is an independent advisory body to the [municipal council/political office bearers/ accounting officer and the management and staff of the municipality/board of directors] on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; with the MFMA,</p>

Assurance provider	Assessment	Reason for the assessment of the assurance provider
		<p>DORA and any other applicable legislation; performance evaluation; and any other issues.</p> <p>2. The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality's efficiency and effectiveness and its overall level of compliance with the applicable legislation.</p> <p>The financial statements submitted for audit were not prepared in accordance with the prescribed financial reporting framework and there were material misstatements identified during the audit.</p> <p>Furthermore, the recommendations of the audit committee were not implemented by management resulting in repeat findings.</p> <p>The municipality's audit committee has limited impact on the outcome of the audit opinion expressed.</p>
Municipal council	<i>Provides limited/no assurance</i>	<p>Council did not investigate all instances of unauthorised, irregular and fruitless and wasteful expenditure to determine if any person is liable for the expenditure as required by section 32 of the MFMA.</p> <p>No impact on the outcome of the audit outcome as there was a lot of repeat findings</p>
MPAC	<i>Provides limited/no assurance</i>	<ol style="list-style-type: none"> 1. The extent to which the council adopted the MPAC guides has been considered in the assessment of MPAC as an assurance provider. 2. MPAC has limited or no impact on the outcome of the audit opinion expressed. 3. The prior years' unauthorised, irregular and fruitless and wasteful expenditure was not adequately investigated to determine if a person is liable. 4. Repeat findings on non-compliance as a result of lack of consequence management.

Status of implementing commitments and recommendations

111. Below is our assessment of the progress in implementing the commitments made by the municipality to address the prior and current year's audit findings.



No.	Commitment	Made by	Date	Status
1	Appointment of the municipal manager	Mayor	February 2015	Not implemented
2	Audit action plan	Mayor	February 2015	In progress
3	Asset Register	Mayor	February 2015	In progress

112. Two recommendations are still being implemented and one has not been addressed.
113. Details on the status of implementing the previous years' recommendations are provided in section 8, which summarises the detailed audit findings.

2.7 OTHER REPORTS

114. I draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the matters reported on the municipality's financial-, performance- and compliance. The reports noted do not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

115. The office of the Public Protector South Africa is currently conducting investigations against the Thaba Chweu local municipality which include allegations of fraud and corruption by municipal officials, maladministration and improper prejudice.

SECTION 3: Specific focus areas

3.1 FINANCIAL VIABILITY

116. Our audit included a high-level overview of the municipality's financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management's own financial assessment.

FINANCIAL VIABILITY ASSESSMENT			
(Limitation = unable to obtain sufficient appropriate information to assess the indicator)		AS AT 30 JUNE 2016	AS AT 30 JUNE 2015
EXPENDITURE MANAGEMENT			
1.1	Creditor-payment period	617Days	592 Days
REVENUE MANAGEMENT			
2.1	Debtor-collection period (after impairment)	40Days	166 Days
2.2	Debtors impairment provision as a percentage of accounts receivable	84%	16.9 %
	• Amount of debtors impairment provision	R161 946 551	R30 837 441
	• Amount of accounts receivable	R31 055 227	R151 960 304
ASSET AND LIABILITY MANAGEMENT			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	Yes	Yes
	• Amount of the (deficit) for the year	(R154 955 986.00)	(R187 406 377)
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	Yes	Yes
	• Amount of the net current (liability) position	(R1030 125 265)	(R303 093 857)
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset position	R501 838 327	R2 256 268 914
3.4	Liquid assets as a percentage of total current liabilities (acid test percentage)	11%	35.7%
	• Amount of liquid assets (total current assets less inventory less prepayments)	(R54 454 818)	R169 947 409
	• Amount of total current liabilities	R497 094 056	R475 541 370
CASH MANAGEMENT			
4.1	The year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R5 236 857	R8 996 986
4.2	Net cash flows for the year from operating activities were negative	No	No
	• Amount of net cash in for the year from operating activities	R76 041 360	R54 207 878
4.3	Creditors as a percentage of cash and cash equivalents	8095.2 %	4468.8 %
	• Amount of creditors (accounts payable)	R423 933 708	R402 060 684
	• Amount of cash and cash equivalents at year-end	R5 236 857	R8 996 986
OVERALL ASSESSMENT			
Overall the financial viability is assessed as:		Intervention required	Intervention required

117. The provision for impairment has increased significantly in the current year, the municipality is currently exposed to credit risk of not collecting the money due relating to the service that has rendered.

118. The high creditors' days poses a risk of interest being incurred by the municipality resulting in fruitless and wasteful expenditure and these might also increase the risk of municipality being taken to court and incur legal cost.
119. This could lead to reputational risk as the municipality could be seen as not managing their finances (working capital).
120. The high debtors' impairment provision poses a significant risk of increase in overdraft since municipality still need to meet its current obligation of paying its suppliers e.g. Eskom
121. Increase deficit for the year pose a risk to the municipality meeting its current obligation which could affect going concern.

3.2 PROCUREMENT AND CONTRACT MANAGEMENT

122. The audit included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices.
123. A summary of the findings from the audit are as follows:

Irregular expenditure

R28 756 863 (100%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation

Awards to persons in the service of the state

124. SCM Regulation 44 prohibits awards to persons or to entities owned/ managed by them if they are in service of the auditee (i.e. employees and councillors) or if they are in service of any other state institution. The audit included the identification of such prohibited awards. Further testing was also performed to determine whether the legislated requirements with regard to declarations of interest were adhered to.

The findings were as follows:

Finding	Number and value of awards made	Number and positions of officials/ councillors	Number of providers	Further non-compliance or irregularities regarding the awards			
				Provider did not submit declarations of interest	Provider did not declare interest (false declarations)	Officials/ councillors did not declare interest	Official/ councillor was involved of in the procurement process
Awards to officials and/or councillors of the municipality municipal entity	2Quotations: R14 950.00	1 Councillor	1	1	N/A	1	0

Awards to officials of other state institutions	6 Value: R94 339	4 Teacher Constable No information received No information received	4	0	3		0
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Procurement processes

125. The table below is a summary of findings identified on procurement processes:

	Total		Quotations		Contracts	
	Number	Value R'	Number	Value R'	Number	Value R'
Awards selected for testing	86	R80 640 371	57	R8 506 730	29	R72 133 641
Expenditure incurred on selected awards - current year		R194 102 327		R64 217 742		R129 884 585
Limitations - awards selected but could not be tested	2	R10 432 656	0	0	2	R10 432 656
Awards on which non-compliance was identified	67	R52 309 073	46	R7 526 843	21	R44 782 230
Irregular expenditure identified	65	R167 676 565	46	R60 861 852	19	R106 814 713
Instances of irregular expenditure where goods/ services were not received	0	0	0	0	0	0
Instances of irregular expenditure where	3	R998 233	3	R998 233	0	0

	Total		Quotations		Contracts	
	Number	Value R'	Number	Value R'	Number	Value R'
<i>it could not be determined whether goods/services were received:</i>	65	R167 676 565	46	R60 861 852	19	R106 814 713

Table 1: Irregular Expenditure comprises of

SCM related irregular expenditure	R28 756 863
Other :	R0.00
Total Irregular expenditure incurred in 2015-16 as disclosed in the AFS	R28 756 863

Table 2: Nature of SCM related Irregular expenditure

Procurement without a competitive bidding or quotation process	R0.00
Non-compliance with procurement process requirements	R28 756 863
Non-compliance with legislation on contract management	R0.00
Total SCM related irregular expenditure	R28 756 863

Table 3: Reconciliation highlighting that the municipality did not deal with previous year's irregular expenditure

Opening balance	R171 178 575
Less: written off	(R0.00)
Balance not dealt with	R171 178 575
Incurred during year	R28 756 863

Closing balance	R199 935 438
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Limitations on audit

126. As indicated in the table above, sufficient appropriate audit evidence could not be provided for 2 of selected awards to the value of R10 432 656 was made in accordance with the requirements of applicable SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular.
127. The reasons for the limitations were that bid documents were not provided for audit. As a result of these limitations, the findings reported in the rest of this section may not reflect the true extent of irregularities and SCM weaknesses.

Procurement processes – general

128. 26 awards to the value of R5 216 823 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers and the deviation was not approved by a properly delegated official.
129. Six quotations with a total value of R413 810 were accepted from prospective providers who were not registered on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy.
130. Two quotations to the value of R464 183 were procured from suppliers without valid tax clearance from the South African Revenue Services.
131. One contract was awarded to bidders who did not score the highest points in the bid evaluations, and there was no justification for the deviation.
132. One quotation was awarded to bidders who did not submit a declaration of whether they were employed by the state or connected to any person employed by the state.

Construction contracts

133. Nine construction contracts with a total value of R40 730 850 were awarded to contractors who were not registered with the Construction Industry Development Board (CIDB).

Local content and production (designated sectors)

134. Specifications for eight awards with a total value of R1 069 249 did not stipulate the minimum threshold for local production and content.

Contract management

135. The performance of 23 contractors or providers was not monitored monthly. The total value of related contracts was R97 405 662.

Internal control deficiencies

- No inadequate actions taken to address SCM risk identified



- No processes to report any breach of or failure to comply SCM system
- Inadequate controls to ensure interest is declared
- Inadequate controls to ensure person with interest withdraws from procurement process
- SCM policies/ procedures/ fraud prevention plan did not provide measures for prevention of abuse of SCM system
- No controls to monitor performance of contractors
- Inadequate controls for vendor acceptance and maintenance
- No/ inadequate record keeping
- Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
- Management did not review and monitor compliance with applicable laws and regulations.
- Vacancy on SCM manager position

3.3. OTHER FINANCIAL INFORMATION

UNAUTHORISED EXPENDITURE	Rands		Rands
Extent		Nature relates to:	
Incurring(as disclosed in the AFS)	R22 748 359	Over-spending	R22 748 359
Identified during audit	None	Not in accordance with purpose / condition	R0.00
Identified by the auditee	R22 748 359	Expenditure unrelated to functional area	R0.00
Closing balance	R66 1521 70	Non-permissible grant	R0.00
Cash/Non-cash items			
Non-Cash items	R0.00	Cash items	R22 748 359
Nature of non-cash items	N/A		
Fruitless and Wasteful Expenditure			
Incurring(as disclosed in the AFS)	R44 206 695	Number of incidents	285
Identified during the audit(not disclosed):	R7 663 077	Closing balance	R92 534 350
Identified by the auditee	R44 206 695		
Nature			

Other	R0.00	<i>Incurred to prevent irregularities/loss/FWE etc.</i>	R0.00
Nature of other			
Eg: interest and penalties	R44 206 695		

3.4 FRAUD AND CONSEQUENCE MANAGEMENT

136. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.
137. Below is a summary of fraud risk factors that should be addressed to ensure that sufficient measures/controls are in place to prevent material misstatement or non-compliance due to fraud.
- Non-compliance with SCM laws and regulations not disclosed in the annual financial statements.
 - There are fraud allegations that are forwarded to the office of the public protector for investigation.
138. The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular as well as fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the municipality's management of consequences. The significant findings are provided below :

Inadequate measures to manage consequences

139. The following measures were not implemented to ensure that the environment is conducive to effective consequence management:
- The municipality does not have a fraud prevention plan.
 - The disciplinary board was not properly constituted in accordance with the provisions of the Financial Misconduct Regulations.
 - There are misconduct/transgressions that are committed by officials and suppliers of the municipality.
 - The municipality did not develop and adopt appropriate systems and procedures for investigation of allegations of misconduct and disciplinary procedures.
 - The municipality has not established disciplinary committee as required by Municipal regulations on financial misconduct procedures and criminal proceedings 4(1).
 - No means of recovery is made by the municipality for losses incurred/damages suffered as a result of misconduct from theft.
 - No standard operating procedures plan implemented for financial misconduct or transgressions committed by officials.

- The municipality does not have processes in place to update existing policies and procedures as a result of changes in applicable legislation.
- No proof of submission to the municipality from National Hotline (Office of the Premier) for financial misconduct or transgressions committed by officials.
- The risk register of the municipality does not address risk related to hotlines and the risk officials were not aware of any information from hotlines, as they indicated that they were not aware of any information from the hotline.
- Information from the hotlines is not investigated and is sent back to provincial hotlines.
- No evidence obtained that the unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was investigated.

There is lack of proper record keeping ensuring that complete, relevant and accurate information is accessible and available to support the processes followed for financial misconduct/ transgressions committed by officials and suppliers of the auditee.

Failure to implement consequences

140. The table below provides a summary of transgressions from the previous year that were either not investigated or proper disciplinary steps were not taken after investigation.

Unauthorised, irregular as well as fruitless and wasteful expenditure

Finding	Value
Unauthorised expenditure identified in the previous year was not investigated to determine whether a person was liable for the expenditure	R43 403 811
Irregular expenditure identified in the previous year was not investigated to determine if a person was liable for the expenditure.	R171 178 575
Fruitless and wasteful expenditure identified in the previous year was not investigated to determine whether a person was liable for the expenditure	R48 327 655

Allegations of financial misconduct, fraud and improper conduct in SCM committed by senior managers

Finding	Number of instances
Allegations of financial misconduct against senior managers were not always tabled before council	1
Allegations of financial misconduct against senior managers were not investigated	1

Allegations of financial misconduct, fraud and improper conduct in SCM committed by officials other than senior managers of municipalities

Transgressions identified in the current year

141. Unauthorised, irregular as well as fruitless and wasteful expenditure disclosed in note 42, 43 and 44 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of the unauthorised, irregular as well as fruitless and wasteful expenditure. Disciplinary steps must be taken against officials who caused or

permitted the unauthorised, irregular as well as fruitless and wasteful expenditure and losses incurred as a result must be recovered from the person liable.

142. This report includes other audit findings that are indicative of transgressions by officials or other role players. Summarised in the table below are allegations of transgressions that must be investigated and disciplinary steps taken based on the results of the investigations:

Finding	Number of instances	Value
Official failed to disclose their own interest or that of close family members, partners or associates in contracts	2	R14 950.00
Supplier submitted false declaration of interest	3	R80 139.24

3.5.UTILISATION OF CONDITIONAL GRANTS

Utilisation of conditional grants received

143. For the financial year under review, the audit included an assessment of the effectiveness of the utilisation of the following conditional grants received:

- Municipal Infrastructure Grant (MIG)
- Expanded Public Works Programme (EPWP)
- Municipal Water Infrastructure Grant (MWIG)

There were no material findings identified in the utilisation of selected grants

144. For each of the grants tested as per the table above, we selected key projects funded by the grant and audited the utilisation of grants on the project. Listed below are the audit findings identified for each project.

Key projects/ Initiatives funded by the grant		
Summary of selected key project and result of testing	Details	Details
Name of grant	<i>Municipal Infrastructure Grant</i>	<i>Municipal Infrastructure Grant</i>
Project/initiative funded by the grant	<i>Refurbishment of roads in Mashishing</i>	<i>Lydenburg Reservoirs</i>
Achievement of planned targets	Achieved	Achieved
Correctness of reported performance/achievement of targets	Correct	Auditee did not evaluate performance
Results of testing procurement of goods and services for the project	No findings identified	Not tested

Key projects/ initiatives funded by the grant		
Summary of selected key project and result of testing	Details	Details
Name of grant	<i>Municipal Infrastructure Grant</i>	<i>Municipal Infrastructure Grant</i>
Project/initiative funded by the grant	<i>Refurbishment of roads in Mashishing</i>	<i>Lydenburg Reservoirs</i>
Misstatements were identified on the accounting for the assets/ work-in-progress	No misstatement identified	No misstatement identified
Results of testing the receipt of goods/ services for the project	No misstatement identified	No misstatement identified
Expenditure on the project is properly accounted for by the municipality.	No misstatement identified	No misstatement identified
The process followed in appointing the implementing agent complied with legislation.	Not applicable	No findings identified
Implementing agent complied with SCM prescripts when procuring goods and services.	Not applicable	No findings identified

3.6 PUBLIC PARTICIPATION

145. Sub-outcome 2 as per MTSF chapter 9 aims at addressing poor communication with communities and weak and ineffective platforms for public participation. The anticipated impact through this sub-outcome is to strengthen the capacity of municipalities, especially at ward level, for deliberate public participation through improved consultation, communication and feedback mechanisms to citizens to participate in decision-making and be kept informed of key issues and developments.
146. As part of the audit of predetermined objectives we audit compliance with the provisions of the Municipal Systems Act (MSA) relevant to community participation. The following findings were identified:
- No ward level improvement plans were submitted for audit.

3.7 USE OF CONSULTANTS

147. The audit included an assessment of the effective use of consultants. In the local government environment, the partnership between the private and public sector has become important in driving strategic goals.
148. The total expenditure on consultants is R9807620.
149. A summary of the significant findings from the audit are as follows:

Internal capacity

150. Consultants were appointed even though the skills necessary to perform the project, duty or study were available within the municipality.

Transfer of skills

151. Requirements for transfer of skills were not included in the terms of reference.
152. Conditions or clauses for transfer of skills were not included in the contract.
153. Measures to monitor transfer of skills according to the contract were not implemented.
154. There was no evidence that skills transfer or training programmes took place.
155. Employees were not identified for training.
156. Transfer of skills was not evaluated at the end of the consultancy project.

Performance management and monitoring

157. The consultant's contract did not stipulate the terms and conditions for the termination of the contract in the case of non- or underperformance.
158. Material misstatements or audit findings were identified by the auditors on the work performed by the consultant or in areas of the consultants' responsibilities.

Internal control deficiencies

159. There is no internal control measures to reduce the over reliance on the use of consultants.

3.8 WATER AND SANITATION

160. The audit included an assessment of the water and sanitation service delivery objective of the municipality. We focused on the following:

- Management of grant funding for water and sanitation infrastructure
- Management processes for water and sanitation infrastructure projects
- Maintenance of water infrastructure
- Water losses

161. A summary of the significant findings from the audit are as follows:

Management of grant funding for water and sanitation infrastructure

162. Of the R16803066 funding received for water infrastructure projects, R 16 803 066(100%) was used for roads project.

Management processes for water and sanitation infrastructure projects

163. Of the R16 803 066 funding received for water infrastructure projects, R16 803 066(100%) was used for other purposes.

Maintenance of water infrastructure

164. The municipality does not have an approved policy in place that addresses routine maintenance of water infrastructure.
165. The municipality did not plan for the maintenance of water infrastructure by setting specific timeframes and targets in this regard.
166. Conditional assessments were not done on water infrastructure to inform the routine water infrastructure maintenance plan and budget.

Water losses

167. The municipality disclosed water losses to the value of 3 271 303litres which represent 34% of the water purified.

3.9ROADS INFRASTRUCTURE

168. The audit included an assessment of the roads infrastructure service delivery objective. We focused on the following:
- The existence of a policy, plan and strategy for the upgrade of roads infrastructure
 - Availability of budgeted funds to maintain and upgrade ageing road networks
169. A summary of the significant findings from the audit are as follows:

The existence of a policy, plan and strategy for the upgrade of roads infrastructure

170. The municipality does not have an approved policy in place for the planning, management and reporting of roads infrastructure.

The municipality does not have an approved RMP/priority list in place for the renewal and routine maintenance of roads infrastructure.

171. The municipality had repetitive findings since 2014-15. No progress was made on the remedial actions identified to address the finding because the municipality does not have road maintenance policy implemented.

Availability of budgeted funds to maintain and upgrade ageing road networks

172. The municipality underspent their 2015-16 roads infrastructure repair and maintenance budget by 72%. This was due to delays(long turnaround time) procurement processes to implement maintenance procumbent plans in the current financial year 2015/16.
173. The selected roads infrastructure routine maintenance projects have exceeded the planned completion date on average by 22 days.
174. The municipality overspent their 2015-16 PPE renewalbudget by7% due to reprioritisation of water project to road projects.
175. The actual expenditure for selected roads infrastructure renewal projects are 21% over budget.

176. The selected roads infrastructure renewal projects have exceeded the planned completion date on average by 38.33 days.
177. The municipality had repetitive findings since 2014-15 on above identified findings.
178. No progress was made on the remedial actions identified to address the findings due to lack of maintenance plan for the roads and infrastructure.

3.11 SECTOR

Performance audits (infrastructure value add)

179. The audit included an assessment of the water and sanitation service delivery objective. We focused on the infrastructure lifecycle to assess whether value for money was received for the selected infrastructure projects. The objective was to identify deficiencies and gaps regarding:

- ☐ Project planning
- Project implementation/ construction
- ☐ Close-out and commissioning.

A summary of the significant findings from the audit are as follows:

Project management

180. The municipality did not enforce method statements for the rehabilitating and patching of potholes which resulted in poor workmanship for pothole repairs conducted.
181. The municipality incurred additional cost on the refurbishment of a road which, although approved by the Council, did not support the objective of the variation order.
182. The municipality did not ensure proper quality control management by the implementing agent and the responsible project manager during the construction and practical completion of a newly refurbished road which led to unattended deficiencies.

Project administration

183. The accounting officer did not implement proper record keeping in a timely manner to ensure adequate project administration, specifically where project documentation reside with the implementing agent.

SECTION 4: Emerging risks

Accounting, performance management/reporting and compliance matters

New pronouncements

Standards of GRAP

184. The ASB has approved the following Standards of GRAP and Interpretations of Standards of GRAP for which the Minister of Finance has not yet determined an effective date:



- GRAP 20 – Related party disclosures
- GRAP 32 – Service concession arrangements: grantor
- GRAP 108 – Statutory receivables
- GRAP 109 – Accounting by principals and agents
- IGRAP 17 – Service concession arrangements where a grantor controls a significant residual interest in an asset

185. In addition the ASB approved Directive 12 – Selection of an appropriate reporting framework by public entities, which will become effective for financial periods commencing on or after 1 April 2018, but early application is permitted.

The Municipal Regulations on a Standard Chart of Accounts (mSCOA) for local government

186. The mSCOA regulations were gazetted on 22 April 2014, which established the application of the mSCOA in local government as a legislated requirement. The mSCOA will take effect on 1 July 2017, thus impacting the 2017-18 financial statements and audits of all local government auditees. The piloting of mSCOA has already commenced in 19 local, two district and eight metropolitan municipalities, phased over the 2015-16 and 2016-17 financial years. Piloting is done in close cooperation with the National Treasury's mSCOA project team and the provincial treasuries.
187. mSCOA is a significant project which, by its very nature and purpose, poses various risks to local government, the more important being:
- Inability of some of the current system vendors to accommodate the technical specifications set in mSCOA, which could result in significant changes having to be effected to current systems and/or the implementation of new systems
 - Municipalities constrained by a scarcity of capacity and skills to manage the changes required by the mSCOA classification framework
 - Funding constraints related to the implementation of the mSCOA
188. The National Treasury is closely involved in ensuring that municipalities and their entities will comply with the mSCOA requirements as contained in the government gazette of 22 April 2014. For most of the municipalities this will, however, mean having to adopt another financial system, or to re-implement a current IT system, or to subject it to major upgrades. These changes expose the municipalities to a variety of risks, which should be closely managed to ensure the completeness, accuracy and validity of the information captured, processed and transmitted through the IT systems.
189. Each municipality is ultimately accountable for ensuring that it has and maintains effective, efficient and transparent systems of financial and risk management and internal control (section 62 of the MFMA).
190. An assessment was undertaken to establish municipalities' readiness to implement mSCOA by 1 July 2017.
191. The municipality is aware of the mSCOA requirements but has made a little progress in ensuring that the municipality would be in a better position to implement mSCOA by the due date of 1 July 2017.

New legislation

National Treasury's SCM reforms:

192. The National Treasury, through the Office of the Chief Procurement Officer is accelerating measures that will make it easy for business and government to transact; and ensure that government purchase what it needs at the right time, the right price, in the correct quantities and delivered to right location. The measures implemented by the national treasury include:
- Establish the Central Supplier Database (CSD) of government to be used by all organs of state: The CSD is a single database that will serve as the source of all supplier information for organs of state.
 - Establish the eTender Portal: This portal provides a single point of access to information on all tenders made by all public sector organisations at all spheres of government.

These measures were communicated by the national treasury through MFMA circulars 81 and 83 and they are already effective from 01 July 2016.

193. The audit included a basic assessment of whether the municipality has implemented the measures.

Central suppliers' database:

- The SCM policy was not updated to provide for inviting quotations from suppliers registered in the CSD.
- The municipality is still utilising its own database of prospective suppliers that is not synchronised with the CSD.
- SCM officials have not been trained on the use the CSD
- SCM officials do not have access to the CSD.




eTender Portal

- The SCM policy was not updated to provide for invitation of competitive bids through the eTender portal.
- As at the date of this report, the municipality has not started inviting bids through the eTender Portal.
- SCM officials do not have access to the eTender portal

SECTION 5: Entities controlled by the municipality

194. In terms of the MFMA, the municipality has certain oversight responsibilities regarding municipal entities over which it has control. The audit outcomes of these entities are summarised below:

Name of entity	Audit outcome			Significant deficiencies in internal control					
	Financial statement opinion	Findings on the performance report	Findings on compliance	Leadership		Financial and performance management		Governance	
				Assessment	Movement	Assessment	Movement	Assessment	Movement
Thaba Chweu Local Development Agency	Unqualified	Unqualified	Yes		➤		➤		➤

 Improved	 Unchanged	 Regressed
Good	Concerning	Intervention required

SECTION 6: Ratings of detailed audit findings

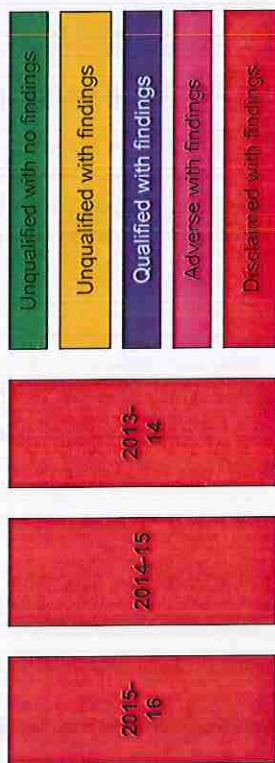
195. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the auditor's report: These matters should be addressed as a matter of urgency.
- Other important matters: These matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
- Administrative matters: These matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

SECTION 7: Conclusion

196. The following figure summarises our message.

Stagnation in audit outcomes



1 To improve the audit outcomes ...

5 ... the root causes are addressed

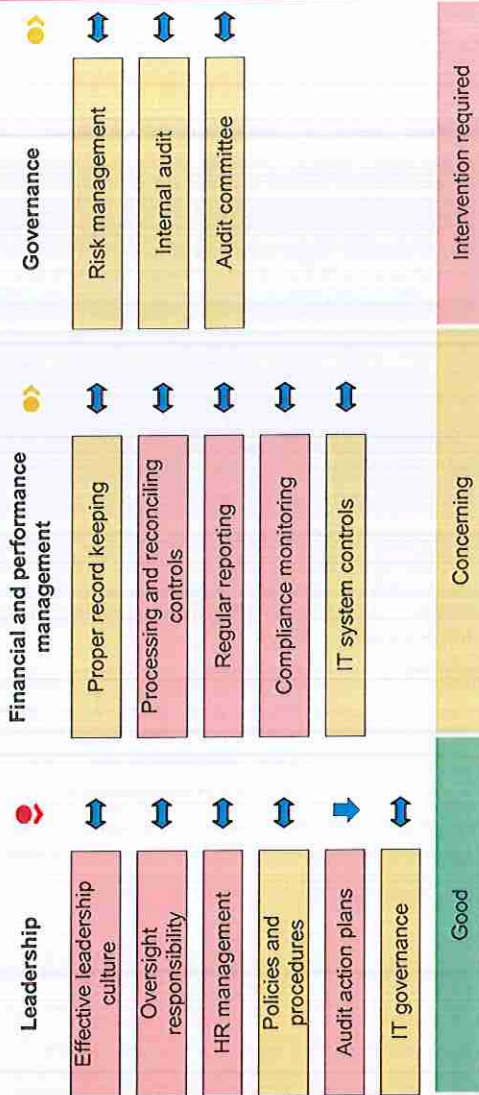
Root causes should be addressed

- The accounting officer is not moving quickly in addressing root causes and action plans (slow response)
- Instability or vacancies in key positions
- Lack of consequences for poor performance and transgressions

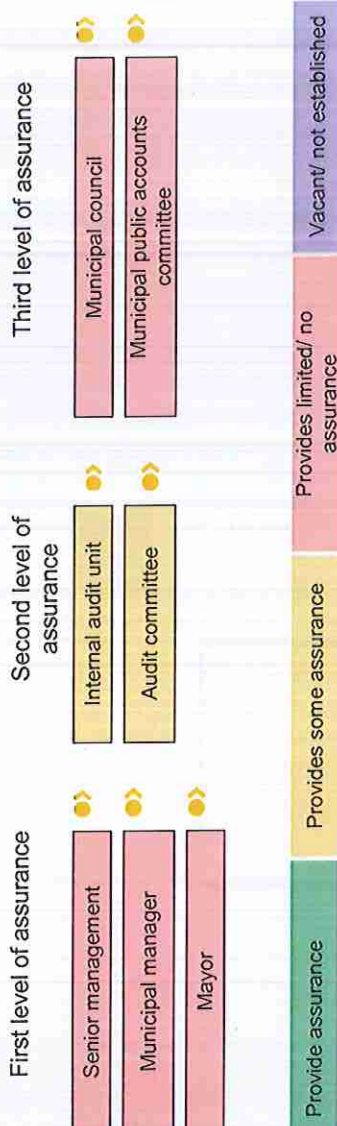
Risk areas



Status of the drivers of internal controls



Assurance levels



2 Key role players need to assure that...

3 ... attention is given to the key controls, and ...

197. There has been no improvement in audit outcomes in the past three years. Our assessment of the level of assurance provided by the assurance providers based on the status of internal controls has also remained unchanged from the prior year. The root causes and the risk areas have not been addressed.
198. Our staff remains committed to assisting in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

Yours faithfully

Bomkazi Bhobho

Deputy Business: Mpumalanga

30 November 2016

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Distribution:
Municipal Manager
CFO
Head of internal audit unit
Audit committee

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Auditor's report

Thaba Chweu Local Municipality

30 June 2016

Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Thaba Chweu Local Municipality

Report on the financial statements

Introduction

1. I was engaged to audit the financial statements of the Thaba Chweu Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Accumulated surplus

4. I was unable to obtain sufficient appropriate audit evidence to support prior period errors disclosed in note 38 to the financial statements. I was unable to determine these adjustments by alternative means, due to weaknesses in the controls of the municipality. Consequently, I was unable to determine whether adjustments were necessary to the accumulated surplus stated at R2 018 364 376 (2014-15: R2 099 047 561) in the statement of changes in net assets.

Property, plant and equipment

5. The municipality did not have adequate systems to record assets and maintain accurate records of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Assets recorded in the asset register to the value of R198 471 937 (2014-15: R58 307 241) could not be physically verified. Furthermore, land selected from the source could not be traced to the asset register, due to the inadequacy of the municipality's fixed asset register.
6. The municipality incorrectly calculated the deemed cost of some of its infrastructure and community assets included in the fixed asset register. There was a resultant impact on the depreciation expense and accumulated surplus. I was not able to determine the impact on the net carrying amount of property, plant and equipment, as it was impracticable to do so. Additionally, I was unable to obtain sufficient appropriate audit evidence to support the deemed cost used to calculate the value of some of the infrastructure and community assets. I was unable to confirm the cost by alternative means.
7. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Additions to property, plant and equipment were incorrectly recognised as expenditure. Consequently, property, plant and equipment was understated and total expenditure was overstated by R16366806. There was a resultant impact on the surplus for the period and on the accumulated surplus.
8. Consequently, I was unable to determine whether any adjustment was necessary to property, plant and equipment of R2 119 176 858 (2014-15: R2 124 046 091) as disclosed in note 4 to the financial statements.

Investment properties

9. The municipality did not fair value investment property at the reporting date in accordance with GRAP 16, *Investment property*. I was not able to quantify the extent of the misstatement, as it was impracticable to do so. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus. Furthermore, I was unable to obtain sufficient appropriate audit evidence regarding the transfers out of R31 503 398 as disclosed in note 3 to the financial statements. I was not able to determine the impact on accumulated surplus as it was impracticable to do so. Consequently, investment property of R305 153 226 (2014-15: R336 656 624) as disclosed in note 3 to the financial statements is misstated.

Inventories

10. The municipality did not classify properties held for sale and earmarked for future development to inventory in accordance with GRAP 12, *Inventory*. I was not able to determine the value and extent of these properties, as the municipality did not maintain adequate records. Furthermore, I was unable to obtain sufficient appropriate audit evidence regarding inventories as disclosed in note 8 to the financial statements. I could not confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to inventories of R41 464 206 as disclosed in note 8 to the financial statements.

Receivable exchange and non-exchange transactions

11. In terms of GRAP 104, *Financial instruments*, an entity is required to assess individually significant financial assets for impairment where there are indicators of impairment and to collectively assess significant financial assets with groups of assets with similar credit risk characteristics. Contrary to this requirement, the municipality incorrectly assessed the payment history rate to calculate the impairment. Consequently, the receivable from exchange and non-exchange transactions was overstated by R20 619 924 (2014-15: R30 837 441) and expenditure was understated by the same amount. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.

Value-added tax (VAT)

12. I was unable to obtain sufficient appropriate audit evidence regarding prior period error amounts relating to VAT as disclosed in note 38 to the financial statements. I could not confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to VAT of R8 937 869 (2014-15: R8 707 690) as disclosed in note 10 to the statement of financial position.

Contingent liabilities

13. GRAP 19, *Provisions, contingent liabilities and contingent assets* requires an entity to disclose contingent liabilities of which the amount of the obligation cannot be measured with sufficient reliability. Contrary to this requirement, the municipality did not disclose contingent liabilities for litigations it could not measure reliably. Furthermore, the municipality did not include contingent liabilities amounting to R6 848 345 as part of its disclosure. Consequently, I was unable to determine the amount by which contingent liabilities was understated and whether further adjustments were required to contingent liabilities stated at R8 449 034.

Irregular expenditure

14. The municipality did not include the required information on irregular expenditure in the notes to the financial statements, in accordance with section 125(2)(d) of the MFMA. The municipality made payments in contravention of the supply chain management (SCM) requirements, resulting in additional irregular expenditure of R8 662 310. Consequently, I was unable to determine whether any further adjustments were necessary relating to irregular expenditure disclosed at R199 935 438 (2014-15: R171 178 575) in the financial statements.

Prior period errors

15. The municipality did not disclose prior period errors in note 38 to the financial statements, as required by GRAP 3, *Accounting policies, estimates and errors*. The nature, the amount of the correction for each financial statement item affected and the amount of the correction at the beginning of the earliest prior period were not disclosed. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary relating to the prior period errors disclosed in the financial statements.

Cash flow statement

16. I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement as a whole, as the financial statements were presented for audit purposes without accurate and complete underlying accounting records. I was unable to audit the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary relating to the cash flow statement as a whole.

Preparation of the financial statements

17. I was unable to obtain sufficient appropriate audit evidence that the accounting officer had fulfilled his responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, as written representations in this respect were not provided. I was also unable to obtain written representations from the accounting officer that I had been provided with all relevant information and access as agreed in terms of the audit engagement and that all transactions had been recorded and were reflected in the financial statements. I could not determine the effect of the lack of such representations on the financial position of the municipality at 30 June 2016 or on the financial performance and cash flows for the year then ended.

Aggregation of immaterial uncorrected misstatements

18. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items included in the statement of financial performance:
- Employee related costs reflected as R140 258 324 was overstated by R15 827 510.
 - Loss on disposal of assets reflected as R21 611 784 was overstated by R19 792 525.
 - Contracted services reflected as R46 353 030 was overstated by R9 424 870.
 - General expenses reflected as R59 048 473 was overstated by R4 182 966.

Disclaimer of opinion

19. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

20. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

21. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during the year ended 30 June 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Material losses

22. As disclosed in note 32 to the financial statements, material losses of 43 237 485 units (2014-15: 36 169 991 units) were incurred as a result of electricity distribution losses, which represented 31% (2014-15: 27%) of the total electricity purchased. Material losses of 3 271 303 units (2014-15: 0 units) were also incurred as a result of water distribution losses, which represented 34% (2014-15: 0%) of the total water purchased.

Material impairments

23. As disclosed in note 11 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors amounted to R108 251 442 (2014-15: R62 184 990), which represented 87% (2014-15: 59%) of the total consumer debtors. The contribution to the provision for debt impairment was R46 066 452 (2014-15: -R7 031 346).

Additional matters

24. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

25. The supplementary information set out on pages ... to ... does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

26. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

27. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. I performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

28. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Objective 1: basic service delivery and infrastructure development on pages ... to ...
 - Objective 2: local economic development on pages ... to ...
29. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPI).
30. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
31. The material findings in respect of the selected objectives are as follows:

Basic service delivery and infrastructure development

Usefulness of reported performance information

32. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. Important reported indicators were not consistent with those in the IDP.
33. The FMPPI requires performance targets to be specific in clearly identifying the nature and required level of performance. Important targets were not specific.
34. The FMPPI requires performance indicators to be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. Important indicators were not well defined.
35. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. Important indicators were not verifiable.

Reliability of reported performance information

36. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the source information provided.

Local economic development

Usefulness of reported performance information

37. Section 41(c) of the MSA requires the IDP to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. Important reported indicators were not consistent with those in the approved IDP.
38. The FMPPI requires performance targets to be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. Important indicators were not well defined.
39. Important indicators did not relate logically and directly to an aspect of the municipality's mandate and the realisation of strategic goals and objectives as per the five-year IDP, as required by the FMPPI.

Reliability of reported performance information

40. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. For important indicators, the reported achievements against planned targets were not reliable, because I was unable to obtain sufficient appropriate audit evidence for these targets. In addition, the reported achievements against planned targets for important indicators were not reliable when compared to the source information provided.

Additional matter

41. I draw attention to the following matter:

Achievement of planned targets

42. Refer to the annual performance report on pages... to ... for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 32 to 40 of this report.

Compliance with legislation

43. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

44. The amendment to the IDP was not adopted by the council only after all the members of the council had been given reasonable notice.
45. The service delivery and budget implementation plan (SDBIP), used for implementing the municipality's delivery of municipal services and annual budget, did not indicate projections for each month of the revenue to be collected (by source), the operational and capital expenditure (by vote), and service delivery targets and performance indicators for each quarter, as required by sections 1 and 53(1)(c) of the MFMA.
46. The performance of the ThabaChweu Local Development Agency against the agreed performance objectives and indicators was not monitored and annually reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.
47. The key performance indicators set by the municipality did not include indicators on the percentage of households with access to a basic level of water, sanitation, electricity and solid waste removal, as required by section 43(2) of the MSA and municipal planning and performance management regulation 10(a).

Annual financial statements, performance report and annual report

48. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not subsequently be provided, which resulted in the financial statements receiving a disclaimer of opinion.
49. The 2014-15 annual report was not published for the local community to submit representations in connection with the annual report, as required by section 127(5)(a) of the MFMA.
50. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.
51. The annual performance report for the year under review did not include a comparison of the performance with set targets, a comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1)(b) and (c) of the MSA.

Procurement and contract management

52. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, contrary to SCM regulation 17(a) and (c).
53. Quotations were accepted from prospective providers who were not registered on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
54. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, contrary to SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

55. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) and did not qualify for the contract in accordance with section 18(1) of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000) and CIDB regulations 17 and 25(7A).
56. Thresholds for local content on designated sectors' procurement were not properly applied in accordance with the requirements of preferential procurement regulation 9.
57. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
58. Awards were made to providers who were in the service of other state institutions or whose directors/ principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the prior year and no effective steps had been taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Human resource management and compensation

59. Appointments were made in posts that were not provided for on the approved staff establishment of the municipality, in contravention of section 66(3) of the MSA.
60. Appointments were made in posts of managers directly accountable to the municipal manager that had not been advertised, in contravention of section 56(3) of the MSA.
61. A senior manager directly accountable to the municipal manager was appointed without the approval of the municipal council, in contravention of section 56(1)(a) of the MSA.
62. Job descriptions were not established for all posts in which appointments had been made in the current year, in contravention of section 66(1)(b) of the MSA.
63. Sufficient appropriate audit evidence could not be obtained that newly appointed managers directly accountable to the municipal manager submitted original/certified copies of academic and professional qualifications, proof of previous employment and disclosure of financial interests prior to appointment, as per the requirements of regulation 4 of GNR 805.
64. Sufficient appropriate audit evidence could not be obtained as to how the council or municipal manager concluded that there was no misconduct before an official was appointed, in contravention of section 57A of the MSA.
65. The competencies of the chief financial officer were not timeously assessed to identify and address gaps in competency levels, as required by municipal regulation on minimum competency levels 13.
66. The senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.

Expenditure management

67. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
68. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.
69. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

70. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

71. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
72. An adequate management, accounting and information system was not in place to account for the receipt of revenue, as required by section 64(2)(e) of the MFMA.

Asset management

73. An adequate management, accounting and information system was not in place to account for assets, as required by section 63(2)(a) of the MFMA.
74. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
75. The municipality did not establish an investment policy that was adopted by the council, as required by section 13(2) of the MFMA and municipal investment regulation 3(1)(a).
76. Capital assets were sold without the approval of the council and the accounting officer, contrary to section 14(2)(a) of the MFMA.

Consequence management

77. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
78. Irregular expenditure incurred by the municipality was not adequately investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulation 75(1).
79. Fruitless and wasteful expenditure incurred by the municipality was not adequately investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulation 75(1).
80. Allegations of financial misconduct against senior managers were not always tabled before the council, as required by disciplinary regulation for senior managers 5(2).
81. Allegations of financial misconduct were not always investigated as required by disciplinary regulation for senior managers 5(3) and section 171(4) of the MFMA.

Internal control

82. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

- 83. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.
- 84. The accounting officer did not implement effective human resource management to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.

Financial and performance management

- 85. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
- 86. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.

Governance

- 87. Although the internal audit unit and the audit committee operated effectively during the current period as per their legislated mandate, recommendations made to management on the improvement of internal controls to ensure reliable reporting on both financial and performance information as well as compliance with legislation had not resulted in improved controls.

Other reports

- 88. I draw attention to the following engagements that could potentially have an impact on the municipality's financial, performance and compliance-related matters. My opinion is not modified in respect of these engagements that are in progress.

Investigations

- 89. The Public Protector South Africa is currently conducting investigations based on allegations of fraud and corruption by municipal officials, maladministration and improper prejudice at the municipality.



Mbombela

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence